INTRODUCTION

Chairman Grassley and members of the Committee, I am pleased to have the opportunity to testify before you concerning the need for a thorough reexamination of the current rules limiting employers' ability to offer phased retirement programs. I ask that my entire testimony be included in the record.

My name is September L. Dau. I am the director of Finance and Human Resources at Iowa Lakes Electric Cooperative in Esterville, Iowa. I am here not only representing the employees of my own electric cooperative, but also the National Rural Electric Cooperative Association, a Washington, D.C. based association of the nation's nearly 1,000 consumer-owned not for profit electric cooperatives. NRECA provides pension and welfare benefits to over 130,000 rural electric employees, dependents, directors and consumer members in 46 different states.

That statistic illustrates both the size and the diversity of the rural electric cooperative workforce. Much has changed since 1948 when NRECA began offering a qualified defined benefit plan to its member cooperatives - not the least is the employees themselves. NRECA's multiple employer defined benefit plan has evolved from a one size fits all sort of retirement savings plan to a very complex array of plans, including both defined benefit and defined contribution plans, that are increasingly viewed by NRECA's member cooperative-employers as an important tool for attracting and retaining the right employee for the job.

WHAT IS PHASED RETIREMENT

NRECA defines phased retirement as a program of incentives targeting older workers to encourage them to remain actively employed, rather than to retire. In the NRECA defined benefit plan this program of incentives is called "quasi retirement".

WHY IS PHASED RETIREMENT IMPORTANT TO NRECA

NRECA has offered a phased retirement option since 1983. The provision was included in the plan in response to requests from cooperative managers who understood the realities of the tight skilled labor market in rural America. The current economic environment has only heightened the need for significant incentives to keep more mature skilled labor on the job at rural electric systems.

In addition to offering a way to manage the problem of the diminishing pool of new and younger skilled workers, phased retirement programs can reduce and even avoid the expense to the employer of recruiting and training new employees while retaining the institutional memory of long-service employees.

Phased retirement incentives address three specific issues for participants in the NRECA defined benefit plan. First, phased retirement allows workers to lock in an advantageous interest rate. This is important because the majority of workers reaching normal retirement age elect to receive a lump sum rather than an annuity payment. There is no leakage issue because the distribution amount is transferred to NRECA's section 401(k) plan or into an IRA. Second, retirement payments are necessary in order to maintain a comfortable life style while working a reduced schedule. Third, an employee will begin to lose the value of subsidized early retirement benefits once he or she reaches 30 years of service without retiring.

DESCRIPTION OF NRECA'S DEFINED BENEFIT PLAN

NRECA maintains a defined benefit plan on behalf of its cooperative members. The plan is a multiple employer plan, qualified under section 401(a) of the Internal Revenue Code. The plan, created in 1948, includes 850 cooperative employers, which in turn offer retirement benefits to 50,000 participants. The plan has assets in excess of $3 billion. The plan contains a flexible menu of options that allows the coop-employer to design a plan that meets its specific employee benefit goals and plan cost criteria.

The employer selects the benefit level, eligibility requirements, whether cost-of-living adjustments will apply, whether benefits will be based on years of benefit service or years of benefit service plus past employment. Finally the employer may choose the normal retirement date for the plan.

Normal retirement age in the NRECA defined benefit plan can be 60, 62, 65, or 30 years of benefit service or age 62, whichever comes first. About 50% of the cooperatives have elected 62 as normal retirement age, about 15% have selected age 65 as normal retirement age and approximately 35% of the cooperatives have opted for the 30-year/age 62 plan. Less than 1% of cooperatives have selected 60 as the normal retirement age. Participants in the plans may elect to receive retirement benefits in the month in which the employee reaches normal retirement age, while continuing to work.

PHASED RETIREMENT OPTION IN THE NRECA PLAN

Under current law, defined benefit plans are permitted to make in-service distributions to an active employee who has reached his or her plan's normal retirement age. For those cooperative employees covered by a plan with an age 60, 62 or 65 retirement age, the rules work well. It is uncertain under the current rules whether in-service distributions from a defined benefit plan may be made upon reaching the plan's early retirement age. The 30 year/age 62 plan is an extremely popular option for the cooperatives, covering approximately 35% of participating employers.

Since the participant in a phased retirement program has not terminated employment, he or she will continue to accrue a benefit even as the employee draws down on the benefit already earned. In addition, all other employee benefits (e.g.: health insurance, life insurance, disability insurance, paid vacation) remain in place because the employee is still an active employee even if he or she has reduced their work schedule.

NEED FOR LEGISLATION

The discussion of phased retirement is a continuing one, dictated almost exclusively by the rapidly changing workforce. For this reason it would be difficult to make an exhaustive list of the necessary changes to ERISA and the Code. However, it is clear that employees often terminate employment to obtain an early retirement subsidy, to lock in an advantageous interest rate, or to provide them with enough income to reduce their work schedules.

Based on NRECA's own experience with phased retirement I hope you would consider legislation that would allow defined benefit plans to make in-service distributions to any employee who has reached age 50 or 30 years of service. The in-service distributions could take the form of a lump sum as well as an annuity. Finally, the provision ought to be permissive.

We would welcome the opportunity to work with you and your staff to explore ways of improving current law to expand the use of phased retirement plans.

CONCLUSION

The National Rural Electric Cooperative maintains a retirement plan on behalf of its employer members for the same reason every other employer does: to help workers provide a comfortable and secure retirement for themselves. Economic boom times coupled with a tight and aging skilled labor market means employers will have to be more creative in offering incentives to attract and retain an increasingly finite resource - workers. Phased retirement is one such option.

I look forward to answering any questions you might have.

Thank you.